

**THE DAVID HOCHSTEIN  
MEMORIAL MUSIC SCHOOL, INC.**

**FINANCIAL STATEMENTS**

**June 30, 2022**



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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
The David Hochstein Memorial Music School, Inc.  
Rochester, New York

### Opinion

We have audited the accompanying financial statements of The David Hochstein Memorial Music School, Inc. (a New York State nonprofit organization), which comprise the balance sheet as of June 30, 2022, and the related statements of activities, functional revenues and expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The David Hochstein Memorial Music School, Inc. as of June 30, 2022, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The David Hochstein Memorial Music School, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the financial statements, management is required to evaluate whether there are conditions or events considered in the aggregate, that raise substantial doubt about The David Hochstein Memorial Music School, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

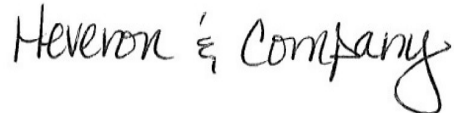
In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The David Hochstein Memorial Music School, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events considered in the aggregate, that raise substantial doubt about The David Hochstein Memorial Music School, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### **Report on Summarized Comparative Information**

We have previously audited The David Hochstein Memorial Music School, Inc.'s 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 15, 2021. In our opinion, the summarized comparative information presented herein, as of and for the year ended June 30, 2021, is consistent, in all material respects with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Heveron & Company". The script is cursive and fluid, with the ampersand being particularly stylized.

Heveron & Company  
Certified Public Accountants

Rochester, New York  
September 15, 2022

**THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.**  
**BALANCE SHEETS**  
**June 30, 2022 and 2021**

**ASSETS**

	<u>2022</u>	<u>2021</u>
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 1,039,623	\$ 901,308
Accounts Receivable, Net of Allowances	54,319	229,990
Prepaid Expenses	35,758	32,290
Pledges Receivable, Net of Discounts and Allowances	<u>241,400</u>	<u>153,376</u>
Total Current Assets	<u>1,371,100</u>	<u>1,316,964</u>
<u>Property and Equipment</u>		
Building and Improvements	6,457,485	6,350,962
Pianos and Musical Instruments	798,914	774,684
Furniture and Fixtures	475,620	449,912
Parking Lot and Land Improvements	544,919	544,919
Leasehold Improvements	183,218	179,343
Library	64,901	64,901
Construction in Progress	10,011	-
Website	8,192	8,192
Less: Accumulated Depreciation	<u>(5,071,542)</u>	<u>(4,857,394)</u>
Net Property and Equipment	<u>3,471,718</u>	<u>3,515,519</u>
<u>Other Assets</u>		
Pledges Receivable, Long-Term, Net of Discount and Allowances	275,130	-
Investments	<u>3,957,182</u>	<u>4,975,850</u>
Total Other Assets	<u>4,232,312</u>	<u>4,975,850</u>
TOTAL ASSETS	<u>\$ 9,075,130</u>	<u>\$ 9,808,333</u>

## LIABILITIES AND NET ASSETS

	<u>2022</u>	<u>2021</u>
<u>Current Liabilities</u>		
Accounts Payable and Accrued Expenses	\$ 158,922	\$ 110,667
Accrued Payroll	31,468	102,220
Deferred Revenue	<u>44,066</u>	<u>33,835</u>
Total Current Liabilities	<u>234,456</u>	<u>246,722</u>
<u>Long-Term Liabilities</u>		
Loan Payable - Long-Term Portion	<u>-</u>	<u>398,870</u>
Total Liabilities	<u>234,456</u>	<u>645,592</u>
<u>Net Assets</u>		
Without Donor Restrictions:		
Undesignated	4,049,916	3,800,607
Board Designated Quasi-Endowment	<u>2,650,119</u>	<u>3,341,095</u>
Total Net Assets Without Donor Restrictions	<u>6,700,035</u>	<u>7,141,702</u>
With Donor Restrictions:		
Purpose/Time Restrictions	734,123	598,872
Perpetual In Nature	<u>1,406,516</u>	<u>1,422,167</u>
Total Net Assets With Donor Restrictions	<u>2,140,639</u>	<u>2,021,039</u>
Total Net Assets	<u>8,840,674</u>	<u>9,162,741</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$9,075,130</u></u>	<u><u>\$9,808,333</u></u>

See Accompanying Notes to Financial Statements.

**THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.**  
**STATEMENT OF ACTIVITIES**  
**For The Year Ended June 30, 2022**  
**(With Comparative Totals For The Year Ended June 30, 2021)**

		<u>With Donor Restrictions</u>		<u>Totals</u>	
	<u>Without Donor</u>	<u>Purpose</u>	<u>Perpetual</u>	<u>2022</u>	<u>2021</u>
	<u>Restrictions</u>	<u>Restrictions</u>	<u>In Nature</u>		
<u>Support and Revenue</u>					
Gifts, Grants and					
Contributions	\$ 859,650	\$ 459,490	\$ 140,030	\$1,459,170	\$ 902,388
Gifts-in-kind	34,143	-	-	34,143	46,753
PPP Loan Forgiveness	398,870	-	-	398,870	385,410
Employee Retention Credit	88,250	-	-	88,250	379,262
Special Events	121,290	-	-	121,290	84,497
Less: Direct Benefit to					
Donors	(18,181)	-	-	(18,181)	-
Tuition and Registration	1,820,802	-	-	1,820,802	1,348,543
Less: Tuition Assistance	(334,757)	-	-	(334,757)	(174,795)
Rental Income	99,726	-	-	99,726	64,965
Bookstore Sales Income	100	-	-	100	362
Other Income	37,622	-	-	37,622	17,808
Releases from Restrictions	<u>81,651</u>	<u>(81,651)</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total Support and					
Revenue	<u>3,189,166</u>	<u>377,839</u>	<u>140,030</u>	<u>3,707,035</u>	<u>3,055,193</u>
 <u>Expenses</u>					
Program Services	2,139,243	-	-	2,139,243	1,853,574
Supporting Services:					
Management and General	471,883	-	-	471,883	446,067
Fundraising	<u>214,103</u>	<u>-</u>	<u>-</u>	<u>214,103</u>	<u>161,824</u>
 Total Expenses	<u>2,825,229</u>	<u>-</u>	<u>-</u>	<u>2,825,229</u>	<u>2,461,465</u>
 Change in Operating Net Assets	<u>363,937</u>	<u>377,839</u>	<u>140,030</u>	<u>881,806</u>	<u>593,728</u>



**THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.**  
**STATEMENT OF ACTIVITIES**  
**For The Year Ended June 30, 2022**  
**(With Comparative Totals For The Year Ended June 30, 2021)**  
**(Continued)**

		<u>With Donor Restrictions</u>		<u>Totals</u>	
	<u>Without Donor</u>	<u>Purpose</u>	<u>Perpetual</u>	<u>2022</u>	<u>2021</u>
	<u>Restrictions</u>	<u>Restrictions</u>	<u>In Nature</u>		
<u>Other Revenue, (Expenses),</u>					
<u>Gains and (Losses):</u>					
Net Investment Returns	(664,456)	(169,588)	(155,681)	(989,725)	1,132,218
Depreciation Expense	<u>(214,148)</u>	<u>-</u>	<u>-</u>	<u>(214,148)</u>	<u>(207,917)</u>
Total Other Revenue,					
(Expenses), Gains and					
(Losses)	<u>(878,604)</u>	<u>(169,588)</u>	<u>(155,681)</u>	<u>(1,203,873)</u>	<u>924,301</u>
Change in Net Assets	(514,667)	208,251	(15,651)	(322,067)	1,518,029
Net Assets - Beginning of Year	7,141,702	598,872	1,422,167	9,162,741	7,644,712
Net Assets Released from					
Restrictions Pursuant to					
Endowment Spending Rate	<u>73,000</u>	<u>(73,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets - End of Year	<u>\$6,700,035</u>	<u>\$ 734,123</u>	<u>\$1,406,516</u>	<u>\$8,840,674</u>	<u>\$9,162,741</u>

See Accompanying Notes to Financial Statements.

**THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.**

**STATEMENT OF FUNCTIONAL REVENUES AND EXPENSES**

**For The Year Ended June 30, 2022**

**(With Comparative Totals For The Year Ended June 30, 2021)**

	Music and Dance	Expressive Arts	ROCmusic Program	Total Program	Management and General	Fund Raising	Totals	
							2022	2021
<u>Support and Revenue</u>								
Gifts, Grants and Contributions	\$ 280,759	\$ 55,192	\$ 45,101	\$ 381,052	\$ 7,839	\$ 1,459,918	\$ 1,848,809	\$ 1,281,559
Gifts-in-kind	34,143	-	-	34,143	-	-	34,143	46,753
Employee Retention Credit	38,485	8,030	3,198	49,713	33,172	5,365	88,250	379,262
United Way Designations	-	-	-	-	-	9,231	9,231	6,239
Special Events	-	2,500	-	2,500	-	118,790	121,290	84,497
Less: Direct Expenses	-	-	-	-	-	(18,181)	(18,181)	-
Tuition and Registration, Net	1,222,861	263,184	-	1,486,045	-	-	1,486,045	1,173,748
Rental Income	4,535	-	-	4,535	95,191	-	99,726	64,965
Bookstore Sales Income, Net	100	-	-	100	-	-	100	362
Other Income	33,112	-	-	33,112	4,510	-	37,622	17,808
Total Support and Revenue	1,613,995	328,906	48,299	1,991,200	140,712	1,575,123	3,707,035	3,055,193
<u>Expenses:</u>								
Salaries and Wages	1,185,452	305,152	36,116	1,526,720	241,989	120,425	1,889,134	1,696,423
Payroll Taxes	99,816	25,778	3,836	129,430	23,165	9,844	162,439	137,212
Employee Benefits	25,991	16,369	-	42,360	27,627	8,796	78,783	77,943
Outside Professional Staff	14,015	-	5,162	19,177	-	-	19,177	11,208
Total Personnel Costs	1,325,274	347,299	45,114	1,717,687	292,781	139,065	2,149,533	1,922,786
Repairs and Maintenance	68,935	7,760	-	76,695	5,496	642	82,833	72,740
Utilities	84,115	10,258	-	94,373	7,181	1,026	102,580	69,966
Insurance	40,566	4,947	-	45,513	3,463	495	49,471	43,162
Rent Expense	31,590	-	-	31,590	3,510	-	35,100	33,470
Total Occupancy	225,206	22,965	-	248,171	19,650	2,163	269,984	219,338

**THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.**  
**STATEMENT OF FUNCTIONAL REVENUES AND EXPENSES**

**For The Year Ended June 30, 2022**

**(With Comparative Totals For The Year Ended June 30, 2021)**  
**(Continued)**

	Music and Dance	Expressive Arts	ROCmusic Program	Total Program	Management and General	Fund Raising	Totals	
							2022	2021
<u>Expenses (Continued):</u>								
Purchased Services	9,539	283	3,823	13,645	48,990	56,038	118,673	64,827
Other	39,974	-	3,363	43,337	5,417	32,052	80,806	48,430
Bank Service Charges	46,160	6,295	-	52,455	423	-	52,878	46,538
Printing, Artwork, Promotion	-	-	-	-	42,097	-	42,097	46,172
Property Taxes	20,354	2,482	-	22,836	1,738	248	24,822	26,040
Bad Debt Expense	-	-	-	-	23,642	-	23,642	17,500
Educational Supplies	5,561	318	12,802	18,681	-	-	18,681	11,858
Professional Services	-	-	-	-	17,758	-	17,758	24,983
Conferences and Travel	4,703	5,348	-	10,051	1,274	-	11,325	5,733
Telephone	2,256	687	-	2,943	5,394	1,471	9,808	9,858
Organizational Dues	-	-	-	-	8,097	-	8,097	8,172
Recitals and Performances	6,945	-	-	6,945	-	-	6,945	4,264
Printing and Postage	997	304	-	1,301	2,387	651	4,339	3,234
Supplies	913	278	-	1,191	2,235	596	4,022	1,732
Total Expenses	<u>1,687,882</u>	<u>386,259</u>	<u>65,102</u>	<u>2,139,243</u>	<u>471,883</u>	<u>232,284</u>	<u>2,843,410</u>	<u>2,461,465</u>
Less Expenses Included with Support on the Statement of Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(18,181)</u>	<u>(18,181)</u>	<u>-</u>
Total Expenses	<u>1,687,882</u>	<u>386,259</u>	<u>65,102</u>	<u>2,139,243</u>	<u>471,883</u>	<u>214,103</u>	<u>2,825,229</u>	<u>2,461,465</u>

**THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.**  
**STATEMENT OF FUNCTIONAL REVENUES AND EXPENSES**

**For The Year Ended June 30, 2022**

**(With Comparative Totals For The Year Ended June 30, 2021)**

**(Continued)**

	Music and Dance	Expressive Arts	ROCmusic Program	Total Program	Management and General	Fund Raising	Totals 2022	2021
Change in Net Assets - Operating	<u>(73,887)</u>	<u>(57,353)</u>	<u>(16,803)</u>	<u>(148,043)</u>	<u>(331,171)</u>	<u>1,361,020</u>	<u>881,806</u>	<u>593,728</u>
Other Revenues, (Expenses), Gains and (Losses):								
Net Investment Returns	-	-	-	-	(989,725)	-	(989,725)	1,132,218
Depreciation Expense	<u>(164,850)</u>	<u>(19,284)</u>	<u>-</u>	<u>(184,134)</u>	<u>(28,318)</u>	<u>(1,696)</u>	<u>(214,148)</u>	<u>(207,917)</u>
	<u>(164,850)</u>	<u>(19,284)</u>	<u>-</u>	<u>(184,134)</u>	<u>(1,018,043)</u>	<u>(1,696)</u>	<u>(1,203,873)</u>	<u>924,301</u>
Change in Net Assets	<u>\$ (238,737)</u>	<u>\$ (76,637)</u>	<u>\$ (16,803)</u>	<u>\$ (332,177)</u>	<u>\$ (1,349,214)</u>	<u>\$ 1,359,324</u>	<u>\$ (322,067)</u>	<u>\$ 1,518,029</u>

See Accompanying Notes to Financial Statements.

**THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.**  
**STATEMENTS OF CASH FLOWS**  
**For The Years Ended June 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<u>Cash Flow From Operating Activities</u>		
Change in Net Assets	\$ (322,067)	\$ 1,518,029
Contributions Restricted for Long-Term Purposes	(140,030)	(30,100)
Noncash Expenses, Revenues, Losses and Gains:		
Depreciation	214,148	207,917
Net Realized/Unrealized (Gain)/Loss on Investments	1,038,713	(1,111,727)
Donated Musical Equipment	(24,730)	(38,620)
Bad Debt	23,642	17,500
Forgiveness of PPP Loan	(398,870)	(385,410)
Decrease/(Increase) In:		
Accounts Receivable	152,029	(197,390)
Pledges Receivable	(363,154)	(63,666)
Prepaid Expenses	(3,468)	1,830
Increase/(Decrease) In:		
Accounts Payable and Accrued Expenses	48,255	45,390
Accrued Payroll	(70,752)	19,565
Deferred Revenue	<u>10,231</u>	<u>11,374</u>
Net Cash Flow Provided/(Used) By Operating Activities	<u>163,947</u>	<u>(5,308)</u>
<u>Cash Flow From Investing Activities</u>		
Purchase of Property and Equipment	(145,618)	(344,988)
Proceeds from Sale of Investments	1,040,216	777,438
Purchase of Investments	<u>(1,060,260)</u>	<u>(648,224)</u>
Cash Flow Provided/(Used) By Investing Activities	<u>(165,662)</u>	<u>(215,774)</u>
<u>Cash Flow From Financing Activities</u>		
Contributions Restricted for Long-Term Purposes	140,030	30,100
Proceeds from Paycheck Protection Loan	<u>-</u>	<u>398,870</u>
Cash Flow Provided/(Used) By Financing Activities	<u>140,030</u>	<u>428,970</u>

**THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.**  
**STATEMENTS OF CASH FLOWS**  
**For The Years Ended June 30, 2022 and 2021**  
**(Continued)**

	<u>2022</u>	<u>2021</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	138,315	207,888
Cash and Cash Equivalents - Beginning of Year	<u>901,308</u>	<u>693,420</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,039,623</u>	<u>\$ 901,308</u>

See Accompanying Notes to Financial Statements.

**THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

The David Hochstein Memorial Music School, Inc. (the Organization) is a New York State nonprofit organization that provides musical and dance education in an environment which nurtures and encourages personal achievement. The Organization serves the Rochester, New York community. The Organization obtains its support directly and indirectly from individuals and organizations in the community.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Net Assets

In accordance with accounting principles generally accepted in the United States of America, the Organization reports information regarding its financial position and activities according to the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

*Net Assets With Donor Restrictions* – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, based on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

**THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2022**  
**(Continued)**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Contributions

The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Contributions that are expected to be received in future years are recorded at their present value. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

Income Taxes

The Internal Revenue Service has determined that the Organization is qualified as a charity exempt under Section 501(c)(3) of the Internal Revenue Code, and has also determined that the Organization is publicly supported. As a result, no provision for federal or state income taxes has been made.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect. Amounts that management believes to be uncollectible after collection efforts have been completed are written off. In addition, management evaluates the need for, and if appropriate, provides an allowance to reduce receivables to amounts management expects will be collected. There were allowances at June 30, 2022 and 2021 of \$51,948 and \$42,718, respectively.

Functional Expenses

The costs of providing the various program services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program, management and general, and fundraising categories.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses are allocated among Music and Dance Program, ROCmusic, a collaborative program co-founded by Hochstein, for which Hochstein serves as fiscal agent, Expressive Arts Program (music, dance, art therapies), Management and General and Fundraising. Methods used to allocate costs include space usage, the amount of time spent by personnel in each functional area, and determination of the specific purposes of goods and services purchased. The expenses that are allocated include salaries and wages, outside professional staff, benefits, payroll taxes, utilities, repairs and maintenance, rent, insurance, printing, artwork, and promotion, professional services, conferences and travel, educational supplies, telephone, organizational dues, printing and postage, supplies, and other.



**THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2022**  
**(Continued)**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)**

Deferred Revenue

Deferred revenue consists of amounts received prior to when they are earned. The related revenue is recognized when services are performed.

Advertising

Advertising costs are expensed as incurred.

Property and Equipment

Property and equipment are stated at cost. The Organization capitalizes property and equipment with a cost of over \$2,500 and an estimated life of three or more years.

Depreciation is computed using the straight-line method, based on the estimated useful lives of the assets, as follows.

	<u>Years</u>
Buildings and Improvements	7-40
Leasehold Improvements	15
Furniture and Fixtures	3-10
Parking Lot and Land Improvements	15
Pianos and Musical Instruments	10
Website	7
Library	N/A

The library consists of musical scores, compositions, books, and other unique items. These items are valued at cost, and since they retain their value are not depreciated.

Depreciation expense amounted to \$214,148 and \$207,917 for the years ended June 30, 2022 and 2021, respectively.

In April 1978, the Organization received a gift of a building from Downtown United Presbyterian Church. The building is located at 50 North Plymouth Avenue, Rochester, New York, the present location of the school. The Organization received a quitclaim deed to the premises subject to certain rights of reversion. These rights are exercisable by the Church upon the happening of certain events, namely dissolution, bankruptcy, or non-payment of property taxes by the Organization. The building was recorded on the books at a fair value of \$55,600 based on real estate appraisals of similar buildings sold in the City of Rochester at the time of the gift.

**THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2022**  
**(Continued)**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Determining Fair Value of Financial Assets and Liabilities

Accounting principles generally accepted in the United States of America established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements), and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation method are unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Inputs to the valuation method include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or by other means.

Level 3: Inputs to the valuation method are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used, need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Cash, Cash Equivalents, and Restricted Cash

For the purposes of the statements of cash flows, cash, cash equivalents and restricted cash include all cash on hand and in banks, which, at times, may exceed federally insured limits. The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Organization has not experienced any losses in these accounts and does not believe it is exposed to any significant credit risk with respect to cash, cash equivalents and restricted cash. The Organization had no restricted cash at June 30, 2022 and 2021.

Cash and cash equivalents consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
Checking	\$ 821,732	\$ 774,014
Savings	217,491	126,894
Petty Cash/Cash Held for Change	<u>400</u>	<u>400</u>
Cash and Cash Equivalents	<u>\$1,039,623</u>	<u>\$ 901,308</u>

**THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2022**  
**(Continued)**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Use of Estimates in the Preparation of Financial Statements

Accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the amounts of assets and liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could vary from those estimates.

Revenue and Revenue Recognition

The Organization recognizes revenue from service fees during the year in which the related services are provided to the consumers, net of amounts to which it does not expect to be entitled. Tuition revenue is recognized at time of service. Registration revenue is recognized in July for summer session and in September for fall session; since enrollment is open 12 months out of the year, registration fee revenue can also be recognized the other 10 months as well. Rental income is recognized in the month the event occurs.

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2021, from which the summarized information was derived.

Recent Accounting Pronouncements

In September 2020, FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 requires the presentation of contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. The main difference between the guidance in ASU 2020-07 and previous GAAP is the disclosure of a disaggregation of the amount of contributed nonfinancial assets, qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the period, the Organization's policy about monetizing rather than utilizing the assets, a description of any donor-imposed restrictions associated with the assets, a description of the valuation techniques used, and the principal market used to arrive at a fair value measurement. During the year ended June 30, 2022, the Organization adopted ASU 2020-07 for its contributed nonfinancial assets. This adoption was applied on a retrospective basis.

**THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2022**  
**(Continued)**

**NOTE 2 - LINES OF CREDIT**

The Organization has two lines of credit, the first with a maximum borrowing authorization of \$450,000 with M&T Bank. Advances against this line bear an interest rate at 1% above the current bank prime rate. The second line of credit has a maximum borrowing authorization of \$300,000 with ESL Federal Credit Union. Advances against this line bear an interest rate at .75% below the current bank prime rate. There was no balance due on either line of credit as of June 30, 2022 and 2021.

**NOTE 3 - LIQUIDITY AND AVAILABILITY**

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period. The Organization considers all expenditures related to its ongoing activities of music and dance instruction and arts therapy services, as well as the conduct of services undertaken to support those activities to be general expenditures.

At June 30, 2022 and 2021, the following financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

	<u>2022</u>	<u>2021</u>
Cash and Cash Equivalents	\$ 1,039,623	\$ 901,308
Accounts Receivable, Net of Allowance	54,319	229,990
Pledges Receivable, Net of Allowance	241,400	153,376
Investments	3,957,182	4,975,850
Less: Donor-Imposed Restrictions	(2,140,639)	(2,021,039)
Less: Board-Designated Quasi-Endowment	<u>(2,650,119)</u>	<u>(3,341,095)</u>
	<u>\$ 501,766</u>	<u>\$ 898,390</u>

The Organization also has two committed lines of credit totaling \$750,000, which it may draw upon in the event of short-term liquidity needs.

Although the board-designated funds are intended for specific uses, the board has the ability to make funds available for general expenditures, if necessary.

Liquidity and availability of funds is monitored by the President/Executive Director, the Business Manager, and the Finance Committee. Annual operating budgets that may include a draw of funds from the endowment/quasi-endowment, per the Board-approved Spending Policy, are approved by the Board of Directors.

**THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2022**

**(Continued)**

**NOTE 4 - INVESTMENTS**

Investments in equity securities with readily determinable fair values, and all investments in debt securities are measured at fair market value. Unrealized gains or losses on securities result from differences between the cost and fair market value of securities on a specified valuation date.

Investment securities are exposed to various risks, such as interest rate, market, economic conditions, world affairs, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, and that such changes could materially affect the amounts reported in the accompanying financial statements.

Investments are held in investment funds managed by professional investment advisors.

A summary of investments at market value at June 30, 2022 is as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Totals</u>
Equity Investments	\$ 2,239,641	\$ -	\$ -	\$ 2,239,641
U.S. Securities*	89,177	-	-	89,177
Corporate Bond Funds	-	504,729	-	504,729
Mutual Bond Funds	902,262	-	-	902,262
Mutual Funds	192,773	-	-	192,773
Money Market Funds	<u>28,600</u>	<u>-</u>	<u>-</u>	<u>28,600</u>
Totals	<u>\$ 3,452,453</u>	<u>\$ 504,729</u>	<u>\$ -</u>	<u>\$ 3,957,182</u>

A summary of investments at market value at June 30, 2021 is as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Totals</u>
Equity Investments	\$ 3,267,739	\$ -	\$ -	\$ 3,267,739
U.S. Securities*	38,643	-	-	38,643
Corporate Bond Funds	-	598,280	-	598,280
Mutual Bond Funds	732,065	-	-	732,065
Mutual Funds	327,360	-	-	327,360
Money Market Funds	<u>11,763</u>	<u>-</u>	<u>-</u>	<u>11,763</u>
Totals	<u>\$ 4,377,570</u>	<u>\$ 598,280</u>	<u>\$ -</u>	<u>\$ 4,975,850</u>

\* Includes U.S. Government and Government Backed Securities.

**THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2022**  
**(Continued)**

**NOTE 4 - INVESTMENTS (Continued)**

Bond investment values are determined by the closing bid price on the last business day of the fiscal year if actively traded.

There were no changes in the valuation techniques during the year.

The Organization draws cash to support programs/operations and capital expenditures when needed, according to the spending policy authorized by the Board of Directors. During 2022 and 2021, funds withdrawn equated to \$209,000 and \$196,616, respectively.

**NOTE 5 - PLEDGES RECEIVABLE**

The Organization has received pledges in support of their operations and capital campaign. The pledges have varying payment schedules. Total pledges at June 30, 2022 and 2021 were \$597,668 and \$153,502, respectively. These amounts were reduced by a discount rate of 5% as a result of a present value adjustment. The unamortized discount totaled \$71,370 and \$0 at June 30, 2022 and 2021, respectively. Allowances of \$9,768 and \$126 at June 30, 2022 and 2021, respectively, were calculated based on historical information regarding uncollectible pledges from past campaigns. Pledges receivable net of allowance at June 30 were:

	<u>2022</u>	<u>2021</u>
In One Year or Less	\$ 263,661	\$ 133,502
Between One Year and Five Years	<u>334,007</u>	<u>20,000</u>
	597,668	153,502
Less:		
Allowance for Uncollectible Pledges	(9,768)	(126)
Discount, at 5%	<u>(71,370)</u>	<u>-</u>
	<u>\$ 516,530</u>	<u>\$ 153,376</u>

**NOTE 6 - COMMITMENTS**

The Organization is obligated under a non-cancelable operating lease for facilities through June 30, 2024 with an option to renew for successive one year periods. Rentals for June 30, 2022 and 2021 totaled \$35,100 and \$33,470, respectively.

Future minimum lease payment commitments are as follows:

<u>Year</u>	<u>Amount</u>
2023	\$ 32,712
2024	\$ 36,996

**THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2022**  
**(Continued)**

**NOTE 7 - DONATED SERVICES AND GOODS**

The Organization receives donated services that, although substantial, do not meet the criteria for recording as revenue and expense under accounting principles generally accepted in the United States of America. During 2022 and 2021, approximately 135 and 70 active volunteers provided 1,700 and 1,000 hours of service, respectively.

The Organization receives donated goods that do meet the criteria for recording as revenue and expense or as assets under accounting principles generally accepted in the United States of America. They received donations of instruments and other miscellaneous items during the year. The estimated fair market value of the goods received was \$34,143 and \$46,753 for the years ended June 30, 2022 and 2021, respectively.

The Organization received the following gifts-in-kind for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Instruments	\$ 26,600	\$ 44,675
Other	<u>7,543</u>	<u>2,078</u>
	<u>\$ 34,143</u>	<u>\$ 46,753</u>

The Organization's policy related to gifts-in-kind is to utilize the assets given to carry out the mission of the Organization. If an asset is provided that does not allow the Organization to utilize it in its normal course of business, the asset will be sold at its fair market value as determined by appraisal or specialist depending on the type of asset. If it is tangible property, the Organization may rent, lease, sell, or donate the item.

All gifts-in-kind received by the Organization for the years ended June 30, 2022 and 2021 were considered without donor restrictions and able to be used by the Organization as determined by the board of directors and management.

**NOTE 8 - CONSTRUCTION COMMITMENT**

During the year ended June 30, 2022, the Organization entered into a construction contract totaling \$553,800. The construction is to begin subsequent to year-end.

**THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022**  
**(Continued)**

**NOTE 9 - PAYCHECK PROTECTION PROGRAM LOANS**

In January 2021, the Organization applied for and was approved for a second loan under the Paycheck Protection Program (PPP) created as part of the relief efforts related to COVID-19 and administered by a Small Business Administration approved partner in the amount of \$398,870. The loan was uncollateralized and was fully guaranteed by the Federal government. The Organization was initially recorded the loan as a loan payable and subsequently recorded as forgiveness of debt when the loan obligation was legally released. The Organization recognized \$398,870 of loan forgiveness income for the year ended June 30, 2022.

During April 2020, the Organization applied for and was approved for a \$385,410 loan under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration. The loan was to accrue interest at 1%, but payments were not required to begin for six months after the funding of the loan. This was initially recorded as a note payable and subsequently recorded as forgiveness of debt when the loan obligation was legally released. The Organization recognized \$385,410 of loan forgiveness income for the year ended June 30, 2021.

**NOTE 10 - NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions were restricted for the following purposes at June 30:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Time Restrictions	\$ 426,298	\$ 128,501
Capital Projects	255,376	100,793
Hochstein Youth Orchestra	20,847	18,572
ROC Music	12,759	50,165
Piano Repair	8,399	10,289
Belov Instrument	6,889	7,884
Flute Fund	1,300	1,300
Guitar	1,133	1,353
Expressive Arts	576	34,986
Piano Department	546	546
Tuition Assistance ( <i>unappropriated earnings from endowment</i> )	-	242,588
Dome Piano Restoration	-	1,895
Subtotal	<u>734,123</u>	<u>598,872</u>
Perpetual in Nature:		
Original Gift Value	1,562,197	1,422,167
Underwater Endowments	<u>(155,681)</u>	<u>-</u>
Subtotal	<u>1,406,516</u>	<u>1,422,167</u>
Total Net Assets with Donor Restrictions	<u><u>\$ 2,140,639</u></u>	<u><u>\$ 2,021,039</u></u>



**THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2022**  
**(Continued)**

**NOTE 11 - ENDOWMENTS**

The Organization's endowment consists of approximately 17 individual funds established for a variety of purposes. Its endowments include both donor-restricted funds and funds designated by the board of directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions or board designations.

Interpretation of Relevant Law

The Organization has interpreted the New York Prudent Management of Institutional Funds Act (NYPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions, the original value of gifts donated to the perpetual endowment, the original value of subsequent gifts to the perpetual endowment, and accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with NYPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization (7) where appropriate and circumstances would otherwise warrant alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the Organization, and (8) the Organization's investment policies.

Funds with Deficiencies

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Board of Directors of the Organization has interpreted NYPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2022, funds with the original gift value of \$1,442,744, fair value of \$1,287,063, and deficiency of \$155,681 were reported in net assets with donor restrictions. During the year ended June 30, 2022, the Board of Directors appropriated \$73,000, from the underwater endowment funds. There was no such deficiency as of June 30, 2021.

**THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2022**  
**(Continued)**

**NOTE 10 - ENDOWMENTS (Continued)**

Investment Return Objectives, Risk Parameters and Strategies

The Organization has adopted investment and spending policies approved by the Board of Directors for endowment assets that attempt to provide a predictable stream of funding for programs supported by these investments, while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income, as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk.

Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, mutual funds, and/or money market funds that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 6%, while growing the funds if possible. Therefore, the Organization expects its endowment assets, over time, to produce an average rate of return sufficient for this distribution, and also to provide for the long-term growth of the principal of the invested funds. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund, investment assets, and allocation between asset classes, and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy

The Organization has a policy of appropriating for distribution each year, 6% of its endowment fund's average fair value based on the ending value from the prior 3 calendar years. The percentage will be determined annually by the Finance Committee and recommended to the Board of Directors for its approval. In establishing this policy, the Organization considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor restrictions and the possible effects of inflation. The Organization expects the current spending policy to allow its endowment funds to grow at a rate sufficient to support a sustainable supplemental flow of income, and appreciation to be used for general purposes of the school to meet donor restrictions, and to provide for the long-term growth of the principal of the invested funds. This is consistent with the Organization's objectives to maintain the purchasing power of the endowment assets, as well as to provide additional real growth through new gifts and investment return.

**THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2022**

**(Continued)**

**NOTE 10 - ENDOWMENTS (Continued)**

Endowment net asset composition by type of fund as of June 30, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment fund	\$ 2,650,119	\$ -	\$ 2,650,119
Donor-restricted endowment fund:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	1,442,744	1,442,744
Accumulated investment gains/(losses)	<u>-</u>	<u>(155,681)</u>	<u>(155,681)</u>
Total Endowment Net Assets	<u>\$ 2,650,119</u>	<u>\$ 1,287,063</u>	<u>\$ 3,937,182</u>

Endowment net asset composition by type of fund as of June 30, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment fund	\$ 3,341,095	\$ -	\$ 3,341,095
Donor-restricted endowment fund:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	1,392,167	1,392,167
Accumulated investment gains	<u>-</u>	<u>242,588</u>	<u>242,588</u>
Total Endowment Net Assets	<u>\$ 3,341,095</u>	<u>\$ 1,634,755</u>	<u>\$ 4,975,850</u>

**THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2022**  
**(Continued)**

**NOTE 11 - ENDOWMENTS (Continued)**

Changes in endowment net assets as of June 30, 2022 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets - Beginning of Year	\$ 3,341,095	\$ 1,634,755	\$ 4,975,850
Net Investment Returns	(664,779)	(325,269)	(990,048)
Contributions/Deposits	109,803	50,577	160,380
Appropriation of Endowment Assets Pursuant to Spending Rate Policy	-	(73,000)	(73,000)
Other Changes:			
Distribution From Board-Designated Endowment Pursuant to Distribution Policy	(136,000)	-	(136,000)
Endowment Net Assets - End of Year	2,650,119	1,287,063	3,937,182
Pledges Receivable for Endowment	-	119,453	119,453
Reconciled Endowment Net Assets Including Pledges Receivable	<u>\$ 2,650,119</u>	<u>\$ 1,406,516</u>	<u>\$ 4,056,635</u>

Changes in endowment net assets as of June 30, 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets - Beginning of Year	\$ 2,648,349	\$ 1,317,918	\$ 3,966,267
Net Investment Returns	714,567	417,383	1,131,950
Contributions/Deposits	-	74,249	74,249
Appropriation of Endowment Assets Pursuant to Spending Rate Policy	-	(174,795)	(174,795)
Other Changes:			
Distribution From Board-Designated Endowment Pursuant to Distribution Policy	(21,821)	-	(21,821)
Endowment Net Assets - End of Year	3,341,095	1,634,755	4,975,850
Pledges Receivable for Endowment	-	30,000	30,000
Reconciled Endowment Net Assets Including Pledges Receivable	<u>\$ 3,341,095</u>	<u>\$ 1,664,755</u>	<u>\$ 5,005,850</u>

**THE DAVID HOCHSTEIN MEMORIAL MUSIC SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2022**  
**(Continued)**

**NOTE 12 - SUBSEQUENT EVENTS**

Subsequent events have been evaluated through September 15, 2022, which is the date the statements were available for issuance.